QUESTIONS & ANSWERS
ABOUT THE PROPOSED EXTENSION OF
COMCAST'S FRANCHISE TERM

The following Questions & Answers were prepared by MACC Staff to attempt to provide you answers to expected questions regarding the proposed action:

Q1: How long a term was proposed for the new franchise?

A: We agreed with Comcast on 10 years which is typical in today's market – the current franchise was granted in 1999.

Q2: What major issues in the negotiations were unresolved by the end of October?

A: As of October 31st, the following major issues remained unresolved (a number of lesser issues also remained open):

- <u>Franchise Fee Revenue</u> – The definition of "Gross Revenues" describes in detail the sources of cable service revenue used to compute the 5% franchise fee Comcast owes member jurisdictions for the use of their Right of Way (ROW). (MACC estimates a loss of $2 million in revenues over 10 years if Comcast's changes are accepted).

- <u>Police Powers</u> – For more than thirty years MACC area cable operators have agreed that each jurisdiction could change their police powers ordinances for management of its ROW as needed – Comcast now insists that they should only be subject to ordinances in place at time of the grant of their new franchise agreement – future jurisdictional ordinances would not apply to them.

- <u>Customer Service</u> – Comcast wants to eliminate business subscribers from the protections of the franchise and reduce other customer service provisions. MACC had already agreed to a reduced fine schedule.

- <u>The Public Communications Network (PCN)</u> – For more than thirty years MACC area cable operators have provided, at cost, network services to over 240 local government, school and library sites. Comcast wants to turn the operations of the PCN over to an affiliate company – many issues remain to be resolved with this proposed transition – PCN Users are not happy with this management change which would remove some network management and responsibility out of Oregon.

- <u>Public, Education and Government TV Channels (PEG</u>) – MACC asked for one additional channel for local government programming and to begin upgrading channels to HDTV.

Comcast first agreed but recently suggested MACC trade that channel for other franchise concessions.

- Competitive Equity – Comcast wants to rewrite the terms that dictate how MACC and the jurisdictions will treat competitors who enter the local market. MACC prefers to use the rules set-forth by the FCC and to not reduce our rights below those standards.

- PEG/PCN Grant Fund. In the current franchise, Comcast agreed to fund the Grant Fund (which supports PEG and PCN users) in an amount equaling $1/month/subscriber. Comcast passes that cost on to its customers, but it is their responsibility. MACC is seeking to maintain the status quo for Grant funding by using the inflation-adjusted equivalent for the next 10 years (about $1.35), which would still not meet all the demands on that Fund. Comcast has offered 50₵ and has proposed eliminating Grant funding for PCN equipment (which would result in about $550,000/year in costs to be shifted to the member jurisdictions) Comcast has proposed eliminating operational Grant support to a number of small PCN Users and agencies (including the Virginia Garcia Medical Clinics, Banks/Gaston Schools, the cities of North Plains, Cornelius, Banks, and King City) – this would either force these small Users to either pay this cost (about $150,000/year) from their general funds or drop their PCN services entirely.

Q3: Why not just continue informal negotiations and extend the franchise term to accommodate those discussions?

A: MACC and Comcast have had 33 meetings, seven of those in October. Without the timeline structure of the Formal Process, negotiations could drag on even longer.

While MACC sees the Formal Process as necessary to ensure a timely renewal, concurrent informal discussions with Comcast can continue. This is not unusual during the Formal process.

Q4: Won't the Formal Process be costly to the MACC member jurisdictions?

A: No, not at all. Long before the renewal discussions began this year, MACC began to set-aside a portion of the franchise fees allotted to its operations to pay for the costs of the community needs assessment, the actual renewal costs and, if needed, for the Formal Process. Funds were budgeted in this year's MACC budget just for Formal Process costs.

However, if MACC accepts Comcast's current positions, the resulting franchise will be very costly to the jurisdictions in lost franchise fee revenues and reduced public benefits including $6 million in Grant Funding and jurisdictional control over the PROW.

Q5: Is use of the Formal Process common and are other jurisdictions moving to this process in their negotiations with Comcast?

Although it has been uncommon in the past, recently it has been used more frequently in Comcast systems. Besides MACC (and one other jurisdiction in the Oregon market that may move to Formal), at least three jurisdictions in the West Comcast region have moved to the Formal Process. We hear others are considering it.

Q6: Aren't there significant legal risks in entering the Formal process?

A: There are legal risks to cable franchising in general. However, even when a jurisdiction is in the Informal Process they operate under many of the same rules as when under the Formal Process.

Q7: What happens if Comcast is denied a renewal of its franchise agreement?

A: In the unlikely event the MACC jurisdictions under the Formal Process eventually decide to deny Comcast a cable franchise renewal, Comcast would lose its right to use the ROW and may need to respond to a new MACC RFP in competition with other providers.

Q8: Are there other competitors to Comcast who would offer to provide services to MACC members if Comcast lost its franchise to serve this area?

A: Most definitely. Although this process is unlikely to result in a new provider, the MACC service area is very attractive to competitors as a place to offer high-end communications systems like cable and high-speed Internet services. In the unlikely possibility that Comcast would no longer have a franchise, we would expect many competitors to appear.

Q9: Are the subscriber rates for cable services negotiated during a renewal?

No, for all intents and purposes, most subscriber rate regulation at the local level ended in 1998. We cannot regulate cable rates or dictate the actual programming offered by a cable operator in a cable franchise.

Q10: Why can't MACC just force Comcast to accept the terms of a new cable franchise?

A: Federal Law dictates the process used for renewing a franchise based on a community's needs. MACC has to follow Federal Law and really does not have the ability to force a franchise on a provider.